

CITY OF SAN RAFAEL

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2000, through June 30, 2011

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2000, through June 30, 2011

PROPOSITION 1B FUND ALLOCATIONS

July 1, 2007, through June 30, 2011



JOHN CHIANG
California State Controller

May 2014



JOHN CHIANG
California State Controller

May 15, 2014

The Honorable Gary O. Phillips
Mayor of the City of San Rafael
1400 Fifth Avenue, P.O. Box 151560
San Rafael, CA 94915-1560

Dear Mayor Phillips:

The State Controller's Office audited the City of San Rafael's Special Gas Tax Street Improvement Fund for the period of July 1, 2000, through June 30, 2011. We also audited the Traffic Congestion Relief Fund for the period of July 1, 2000, through June 30, 2011, and the Proposition 1B Fund for the period of July 1, 2007, through June 30, 2011.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund allocations, and Proposition 1B Fund allocations in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$413,860 as of June 30, 2011, because it transferred \$1,469,934 from the Special Gas Tax Street Improvement Fund to the General Fund and expended \$1,056,074, leaving \$413,860 unspent.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, by phone at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/mh

cc: Mark Moses, Interim Finance Director
City of San Rafael

Contents

Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	2
Conclusion	2
Follow-Up on Prior Audit Findings	3
Views of Responsible Official	3
Restricted Use	3
Schedule 1—Reconciliation of Fund Balance	4
Finding and Recommendation	5

Audit Report

Summary

The State Controller's Office audited the City of San Rafael's Special Gas Tax Street Improvement Fund for the period of July 1, 2000, through June 30, 2011. We also audited the Traffic Congestion Relief Fund (TCRF) for the period of July 1, 2000, through June 30, 2011, and the Proposition 1B Fund for the period of July 1, 2007, through June 30, 2011.

Our audit found that the city accounted for and expended its Special Gas Tax Street Improvement Fund, Traffic Congestion Relief Fund, and Proposition 1B Fund in compliance with requirements, except that the city understated the fund balance in the Special Gas Tax Street Improvement Fund by \$413,860 as of June 30, 2011, because it transferred \$1,469,934 from the Special Gas Tax Street Improvement Fund to the General Fund and expended \$1,056,074, leaving \$413,860 unspent.

Background

The State apportions funds monthly from the highway users tax account in the transportation tax fund to cities and counties for the construction, maintenance, and operation of local streets and roads. The highway users taxes derive from state taxes on the sale of motor vehicle fuels. In accordance with Article XIX of the California Constitution and Streets and Highways Code section 2101, a city must deposit all apportionments of highway users taxes in its Special Gas Tax Street Improvement Fund. A city must expend gas tax funds only for street-related purposes. We conducted our audit of the city's Special Gas Tax Street Improvement Fund under the authority of Government Code section 12410.

Government Code section 14556.5 created a Traffic Congestion Relief Fund in the State Treasury for allocating funds quarterly to cities and counties for street or road maintenance, reconstruction, and storm damage repair. Cities must deposit funds received into the city account designated for the receipt of state funds allocated for transportation purposes. The city recorded its TCRF allocations in the Street Maintenance Fund. We conducted our audit of the city's TCRF allocations under the authority of Revenue and Taxation Code section 7104.

Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, was introduced as Proposition 1B and approved by the voters on November 7, 2006, for a variety of transportation priorities, including the maintenance and improvement of local transportation facilities. Proposition 1B funds transferred to cities and counties shall be deposited into an account that is designated for the receipt of state funds allocated for streets and roads. The city recorded its Proposition 1B allocations in the Special Gas Tax Street Improvement Fund. A city also is required to expend its allocations within three years following the end of the fiscal year in which the allocation was made and to expend the allocation in compliance with Government Code section

8879.23. We conducted our review of the city's Proposition 1B allocations under the authority of Government Code section 12410.

Objective, Scope, and Methodology

Our audit objective was to determine whether the city accounted for and expended the Special Gas Tax Street Improvement Fund, the Traffic Congestion Relief Fund and the Proposition 1B Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code. To meet the audit objective, we determined whether the city:

- Properly deposited highway users tax apportionments and other appropriate revenues in the Special Gas Tax Street Improvement Fund;
- Properly deposited TCRF allocations into an account designated for the receipt of state funds allocated for transportation purposes;
- Expended funds exclusively for authorized street-related purposes;
- Expended Proposition 1B Funds in compliance with Government Code section 8879.23; and
- Made available unexpended funds for future expenditures.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We did not audit the city's financial statements. We limited our audit scope to planning and performing the audit procedures necessary to obtain reasonable assurance that the city accounted for and expended the Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief Fund and Proposition 1B Fund in accordance with the requirements of the Streets and Highways Code, Government Code section 8879.23, and Revenue and Taxation Code section 7104. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street purposes. We considered the city's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit found that the City of San Rafael accounted for and expended its Special Gas Tax Street Improvement Fund in compliance with Article XIX of the California Constitution and the Streets and Highways Code for the period of July 1, 2000, through June 30, 2011, except as noted in Schedule 1 and described in the Finding and Recommendation section of this report. The finding requires an adjustment of \$413,860 to the city's accounting records.

Our audit also found that the city accounted for and expended its TCRF allocations recorded in the Street Maintenance Fund in compliance with

Article XIX of the California Constitution, the Streets and Highways Code, and Revenue and Taxation Code section 7104 for the period of July 1, 2000, through June 30, 2011.

In addition, our audit found that the city accounted for and expended its Proposition 1B Fund recorded in the Special Gas Tax Street Improvement Fund in compliance with Government Code section 8879.23 for the period of July 1, 2007, through June 30, 2011.

Follow-Up on Prior Audit Findings

Our prior audit report, issued on August 2001, disclosed no findings.

Views of Responsible Official

We discussed the audit results with city representatives during an exit conference on October 24, 2013. Van Bach, Accounting Manager, agreed with the audit results. Ms. Bach further agreed that a draft audit report was not necessary and that the audit report could be issued as final.

Restricted Use

This report is intended for the information and use of the City of San Rafael's management and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

May 15, 2014

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2010, through June 30, 2011**

	Special Gas Tax Street Improvement Fund		Street Maintenance Fund
	Highway Users Tax Allocations ¹	Proposition 1B Fund Allocations ²	Traffic Congestion Relief Fund Allocations ³
Beginning fund balance per city	\$ 1,899,757	\$ 692,283	\$ 472,620
Revenues	3,881,784	—	—
Total funds available	5,781,541	692,283	472,620
Expenditures	(4,340,749)	(151,682)	(472,620)
Ending fund balance per city	1,440,792	540,601	—
SCO adjustment: ⁴			
Finding 1—Overstated expenditure	413,860	—	—
Ending fund balance per audit	\$ 1,854,652	\$ 540,601	\$ —

¹ The city receives apportionments from the State highway users tax account, pursuant to Streets and Highways Code sections 2103, 2105, 2106, 2107, and 2107.5. The basis of the apportionments varies, but the money may be used for any street purpose. Streets and Highways Code section 2107.5 restricts apportionments to administration and engineering expenditures, except for cities with populations of fewer than 10,000 inhabitants. Those cities may use the funds for rights-of-way and for the construction of street systems. The audit period was July 1, 2000, through June 30, 2011; however, this schedule includes only the period of July 1, 2010, through June 30, 2011.

² Senate Bill 1266, Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, introduced as Proposition 1B, provided funds for a variety of transportation priorities. The audit period was July 1, 2007, through June 30, 2011.

³ Government Code section 14556.5 created a Traffic Congestion Relief Fund (TCRF) in the State Treasury for allocating funds quarterly to cities and counties for street and road maintenance, reconstruction, and storm damage repair. The TCRF allocations were recorded in the Street Maintenance Fund. The audit period was July 1, 2000, through June 30, 2011.

⁴ See the Finding and Recommendation section.

Finding and Recommendation

**FINDING—
Overstated expenditure**

During FY 2010-11, the city transferred \$1,469,934 from the Special Gas Tax Street Improvement Fund to the General Fund to pay for street-related expenditures. However, the city only expended \$1,056,074, leaving an unexpended amount of \$413,860.

Streets and Highways Code section 2101 restricts the expenditures of the Special Gas Tax Street Improvement Fund to actual street-related costs.

Recommendation

The city should reimburse \$413,860 to the Special Gas Tax Street Improvement Fund. In addition, the city should establish procedures to ensure that actual expended amounts are transferred against the Special Gas Tax Street Improvement Fund.

City's Response

The city agreed with the finding and reimbursed the Special Gas Tax Street Improvement Fund by Journal Entry #10172, dated June 30, 2012.

**State Controller's Office
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